

Seattle City Light Advisory Board

Carol S. Arnold, Randall W. Hardy, Jay F. Lapin, Sara Patton, Gary Swofford, Donald M. Wise

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Seattle City Councilmembers
City of Seattle
City Hall
P.O. Box 34025
Seattle, WA 98124-4025

Dear Members of the Seattle City Council:

The City Light Advisory Board understands that the Council will be considering Council Bill 115432 regarding the proposed Electric Utility Executive Compensation Program. We want to let you know that the Advisory Board supports the Compensation Program.

1. Compensation Levels

The Board supports the Compensation Program proposed in the legislation, including the base pay zones, performance awards, and flexible moving expenses. The Board has been concerned for some time that executive compensation at City Light is too low to attract highly qualified experts in the electric utility industry.

For selected positions, City Light salary levels should be comparable to those of other publicly owned electric utilities such as Tacoma Public Utilities and Snohomish County PUD. City Light also must compete for executives with public power experience across the country. Competitive compensation will allow City Light to attract quality staff in key areas such as power management, risk management, and systems operations.

City Light commissioned Mercer Human Resources Consulting, the nation's leading compensation specialists, to evaluate the competitiveness of City Light's current compensation for Officers and Directors. Mercer found that the median salary for virtually all of these jobs at comparable public utilities was higher than the maximum salary allowable under the Seattle pay bands. The gap between the top of the City Light salary scales and median salary levels at investor-owned utilities was even more substantial. For example, Mercer observed that the median salary for a Power Supply Officer at public utilities is 15% higher than the maximum salary that City Light can now pay for this position. The IOU median is 42% higher than the current City Light maximum.

Mercer also found that City Light was uncompetitive in its incentive compensation plan and lack of a substantial relocation benefit. Finally, Mercer found that other public utilities, responding to the same pressures as City Light to improve their performance and accountability in a more complex and competitive energy environment, were increasingly sourcing talent from investor-owned utilities – a trend that will only increase the pay gap between City Light and other public utilities.

City Light faces significant revenue and operating risks in these areas where competition for technically competent staff is the toughest. Adequate compensation is critical in those areas in which City Light competes with other public and private utilities, and even independent power marketers. At present, City Light is in the middle of a major reorganization which is essentially stalled because of its inability to attract highly qualified executives. Unless the proposed ordinance passes, several consequences will result:

- (1) City Light will have to settle for lower skill levels in key positions;

(2) City Light will be run by executives who cannot recognize, much less anticipate and shape, on-going competitive changes in the electric utility industry to the utility's advantage;

(3) City Light key staff will consistently be overmatched in power/financial negotiations with other utilities and power marketers;

(4) Senior power management staff will be unable to optimize, or even consistently earn, the \$150 – 200 million annual wholesale power revenues which are the key to rate stability or future rate decreases for City Light ratepayers.

(5) Management supporting the Superintendent will lack the strategic planning expertise to steer the utility through future crises, including unstable power markets and dramatic climate change.

2. Manager and Strategic Advisor Compensation Programs

The Board supports the provisions for strategic advisors and managers. The Compensation Program generally applies to executive and director-level positions. In addition, the proposal provides for pay flexibility for certain management and strategic advisor positions. We understand that currently there are five positions that would fall within this program. These are strategic advisor positions that require specific knowledge and experience in the electric industry and the power markets.

The Board supports increased management flexibility to attract the well qualified individuals for these key staff positions to ensure the best analysis and strategic advice is available to the Superintendent, Mayor and City Council.

City Light is at a crossroads. Passage of this ordinance will give City Light the ability to staff the utility with high quality executives, anticipate and capitalize on the full range of revenue enhancing and cost saving opportunities and generally produce the high performance organization that City Light ratepayers have every right to expect.

Failure to pass it will be a choice for "business as usual" and will relegate City Light to a future of mediocrity. We cannot predict what the next crisis in the electric industry will be, but rate payers must not be exposed to the same kind of mistakes which produced a 50 per cent utility rate increase in 2001 - - principally because City Light was not properly equipped to deal with the West Coast power crisis.

For all the above reasons, the Advisory Board strongly urges the City Council to pass the City Light Compensation Ordinance as introduced.

Respectfully,



Seattle City Light Advisory Board

Carol Arnold, Chair

Randy W. Hardy

Jay F. Lapin

Sara Patton

Gary Swofford

Donald Wise

cc: Mayor Greg Nickels

Superintendent Jorge Carrasco, Seattle City Light